

## Wheat Market Outlook and Price Report: May 29, 2023

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Mercantile Consulting Venture Inc.

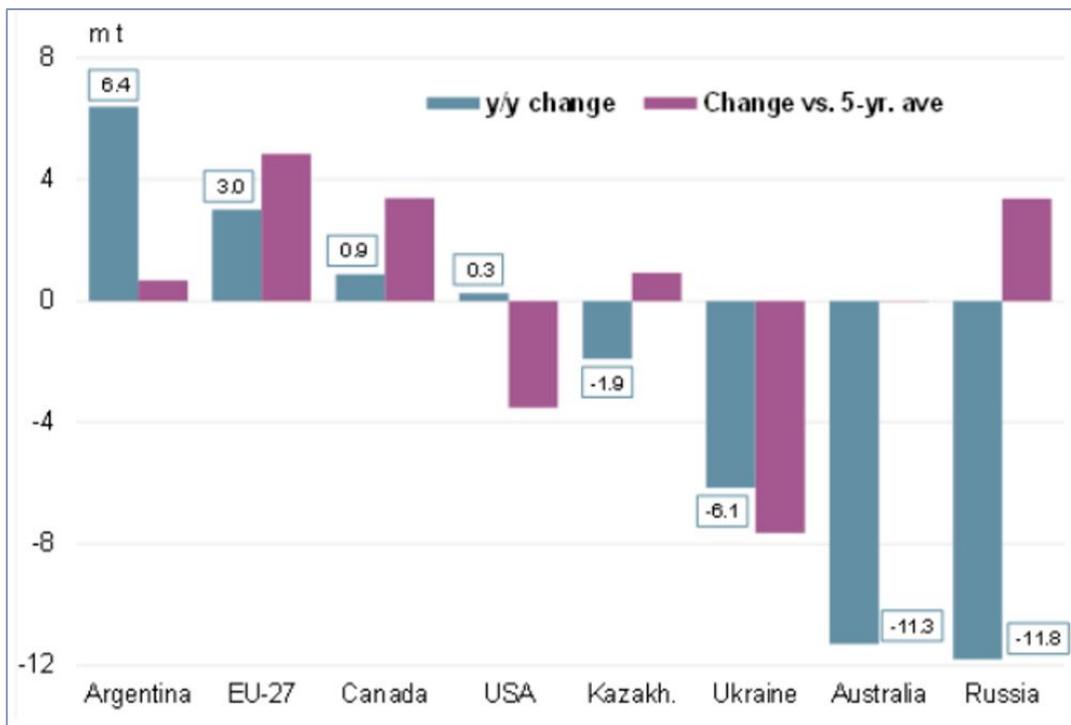
### **i) Background and Rationale for the Report**

The following wheat market outlook and price report will be published on a weekly basis on the Sask Wheat Website. The report provides producers with an overview of world wheat markets, a market forecast, and benchmark prices at both the primary elevator and export positions (FOB Vancouver or elsewhere).

The report is made up of several sections. Following this section, a World Wheat overview is provided, which includes a summary of wheat market fundamentals, world production and trade, and a wheat market outlook. This is followed by several price tables, which include primary elevator bids at various Saskatchewan locations (Table 1), grain spreads (Table 2), and FOB port prices and basis (as measured by subtracting the primary elevator price (Rosetown) from the relevant port location price for individual crops) (Table 3). Table 3 is preceded by a description of the various assumptions, definitions and methodology used in arriving at the FOB port prices and in the export basis calculation.

### **ii) Wheat Market Outlook May 29, 2023**

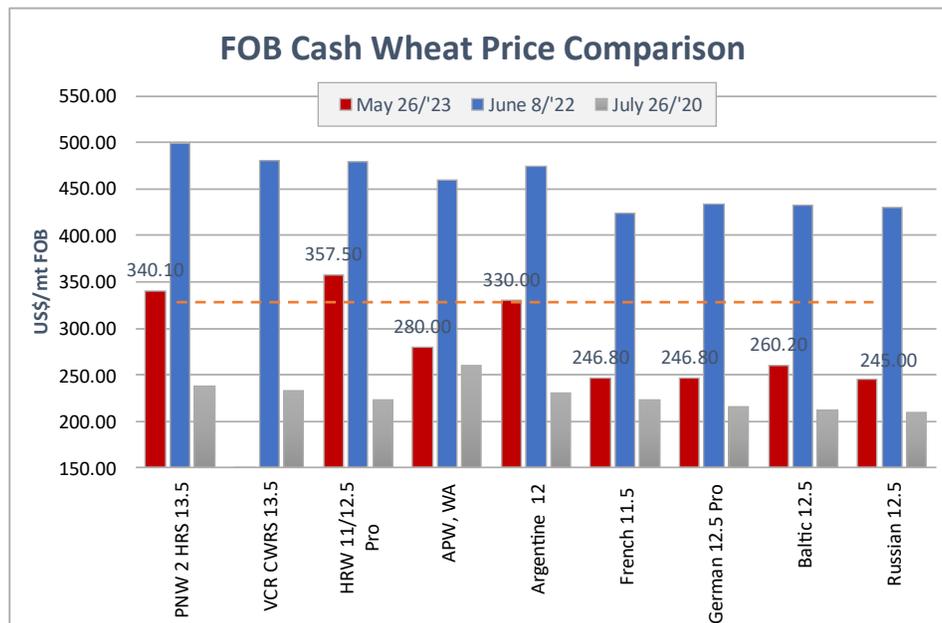
#### **International Grains Council - 2023/2024 Major Exporter Production Change**



- Production in major exporting countries is forecast to be down 10.0 million mt to 367.6 million mt from a record 377.5 million mt in 2022/2023.

- Production is predicted to increase in Argentina (+7.0 million mt), Canada (+3.2 million mt), and the EU (+4.7 million mt).
- However, these increases do not offset flat production in the U.S. (+0.3 million mt) and reductions for Ukraine (-4.4 million mt), Russia (-10.5 million mt), and Australia (-10.0 million mt).
- Weather poses risks to many production regions, including anticipated dryness in Australia associated with an El Niño weather event and reports of dryness in Canada. United States Department of Agriculture (USDA) predicts improved production in Argentina that hinges on recovery from the 2022/2023 drought there.
- With ending stocks already hovering at 15-year lows, any change in production in major exporting countries could have a direct influence on world wheat prices.

### FOB Wheat Price Comparison



- FOB wheat prices have adjusted down further slightly. Russian wheat effectively remains at U.S. \$245.00/mt. French & German wheat at U.S. \$246.80/mt FOB.
- U.S. wheat remains uncompetitive internationally. *Additional cargoes of Polish & German wheat are being sold to the U.S. It is cheaper to ship from Europe to the U.S. East Coast than bringing wheat in by rail from Kansas.*

### ➤ Global wheat production and trade:

There is a lot of competition in the wheat markets as wheat is produced around the world. Below is a brief synopsis on last week's market events in the major wheat origins.

#### Futures:

- July 2023 contract Chicago winter wheat closed at \$616-0, up 11-6 cents on Friday, *up 11 cents on the week.*
- July 2023 contract Kansas hard red winter wheat closed at \$819-2, up 1-2 cents on Friday, *down 5 cents on the week.*

- July 2023 Minneapolis hard red spring wheat closed at \$818, up 12-4 cents on Friday, *up 14 cents on the week.*
- U.S. markets are closed today. *Marché à Terme International de France (MATIF) is down €2/mt this Monday morning.*

**CBOT July 2023 Wheat (1 yr.)**



**KC July 2023 Wheat**

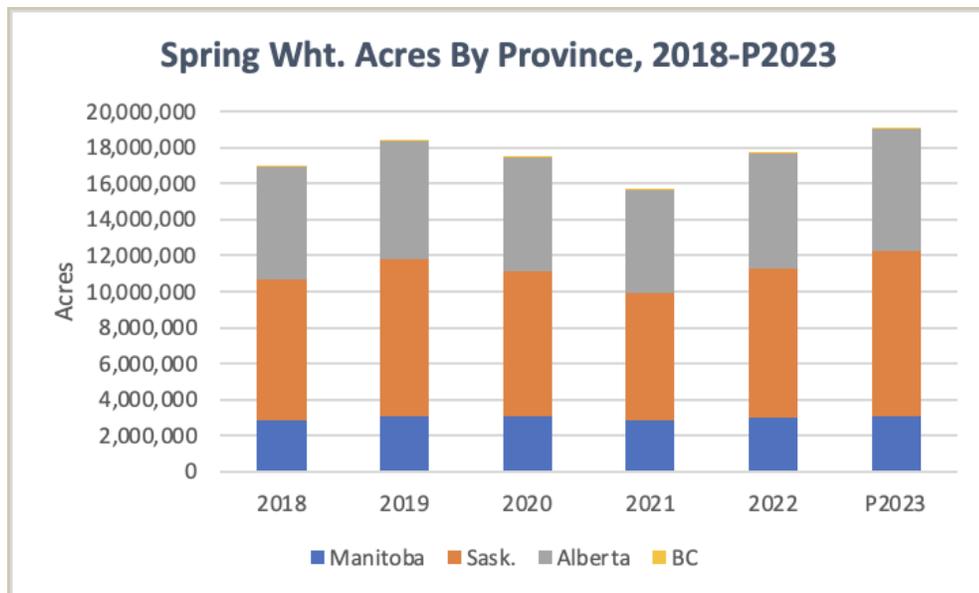


**Minneapolis July 2023 Wheat**



### Canadian Wheat

- Saskatchewan Ag assessed seeding progress for SK spring wheat at 69 per cent as of May 22. Average five-year progress at that date is 80 per cent. Alberta Ag shows spring wheat seeding 93 per cent complete, led by Northeast Alta. with 95 per cent done. Manitoba spring cereals are reported 80-95 per cent planted.
- Topsoil moisture ratings in **SK** have continued to drop in many regions. Province wide, crop land topsoil moisture is rated as two per cent surplus, 63 per cent adequate, 29 per cent short and six per cent very short. The driest regions are the northwest, west central and southwest, where some producers are worried their newly emerging crop will not have enough moisture to make it through the heat of July without a good soaking of rain. **Alta.** surface soil moisture across the province is rated 16 per cent poor, 32 per cent fair, 45 per cent good, seven per cent excellent with less than one per cent having excess surface soil moisture. **MB** spring wheat is emerging with seed rows becoming more apparent every day.

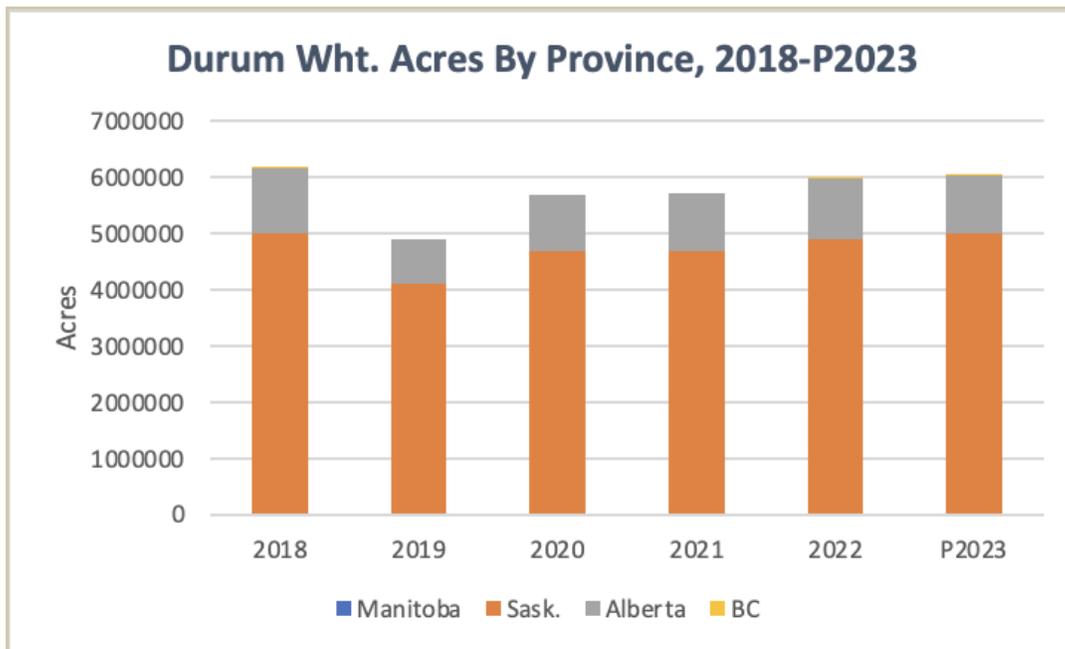


- In the **U.S.** crop progress report, U.S. spring wheat planted came in at 64 per cent, up 14 points from the previous week but still well below the five-year average of 94 per cent. Spring wheat emergence is 32 per cent, eight points behind the five-year average of 40 per cent.
- At 144k mt, **Canadian wheat exports** in week 42 are well below the YTD weekly average of 384k mt. YTD wheat exports reached 16.1 million mt and are 6.8 million mt higher than last year's exports.
- AAFC projects 2022/2023 wheat (excl. durum) exports to reach 19.65 million mt, which would leave 3.5 mt to ship over the next 10 weeks (352k mt/ week). We should be able to get close to that estimate, or slightly exceed it.

(CGC) Grain Handling Summary Wheat		Week 42		(to May 21/'23)
('000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Week 42	194.3	298.6	<b>144.4</b>	<b>109.1</b>
Week ago	125.6	360.5	372.5	60.3
YTD	18,601.3	19,076.3	16,125.5	3,546.1
Last YTD	13,062.8	11,855.0	9,346.7	3,336.9
<b>YTD less Last YTD</b>	<b>5,538.5</b>	<b>19,500.2</b>	<b>6,778.8</b>	<b>209.2</b>
<b>YTD over Last YTD</b>	<b>142%</b>	<b>161%</b>	<b>173%</b>	<b>106%</b>

Source: Mercantile based on CGC data

- In their **May balance sheet** last week, **Agriculture and Agri-Food Canada (AAFC)** increased seeded wheat acres (excl. durum) by a big 734k acres from their April number to 20.9 million acres. This increased production to 29.9 mln mt (28.9 mln mt prev.), and supply to 33.5 mln mt (from 32.8 million mt prev.). AAFC also increased their 2023/2024 export projection by 400k mt to 20 million mt. Still, projected 2023/2024 ending stocks moved up by 100k mt to five million mt.
- The weather in Europe is starting to take on increased importance as the northern crop regions in the EU are turning dry, with little or no rain in the forecast. However, in the fall the wheat complex will be facing high ending stocks in the EU & Russia and a potentially large global crop.
- **Durum:** SK Ag assessed seeding progress for SK durum wheat at 74 per cent as of May 22, compared to the average five-year progress at that date of 87 per cent. Alta. Ag did not specify durum seeding progress.
- Soil moisture conditions in SK are rated 63 per cent 'adequate', and 35 per cent short to very short. In Alta., 17 per cent and 12 per cent, respectively for South Alta. and Central Alta., show poor surface moisture conditions. Another 31 per cent and 26 per cent are in fair condition, while 49 per cent and 62 per cent are in good condition.



- North Dakota, durum wheat was 38 per cent planted (as of May 22), compared to near 16 per cent last year, but behind the 55 per cent average. In Montana, 50 per cent of durum wheat was planted, compared to 63 per cent last year and 61 per cent five-year average. Emergence was 20 per cent compared to a 27 per cent last year.
- **Durum exports** for week 42 were at 103k mt, for a YTD total of 4.5 million mt, well over double last year's exports. 51k mt of last week's exports were shipped from Vancouver/Prince Rupert, and 37k mt were shipped from the St. Lawrence.
- AAFC projects 2022/2023 durum exports to reach 4.8 million mt, which would leave just 316k mt to ship over the next 10 weeks. We think this year's exports could reach 5.2 million mt, reducing ending stocks accordingly.

(CGC) Grain Handling Summary Durum		Week 42		(to May 21/'23)
('000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulkexports	Dom. Disappearance
Week 42	20.1	71.1	102.6	9.2
Week ago	27.3	97.6	57.5	23.1
YTD	4,499.2	5,228.7	4,483.6	576.5
Last YTD	2,076.8	2,522.1	2,118.9	360.4
<b>YTD less Last YTD</b>	<b>2,422.4</b>	<b>2,706.6</b>	<b>2,364.7</b>	<b>216.1</b>
<b>YTD over Last YTD</b>	<b>217%</b>	<b>207%</b>	<b>212%</b>	<b>160%</b>

- AAFC issued their **May balance sheets** last week. For durum, AAFC increased seeded acres by 388k acres from their April number to 6.06 million acres. This raised production to 5.821 million mt (5.447 million mt prev.), and supply to 6.3 million mt (5.973 prev.). AAFC also increased 2023/2024 exports by 350k mt to 4.75 million mt. The increase in projected exports ensured that 2023/2024 ending stocks remained at a relatively tight 800k mt.
- *We are sold out of old crop and would wait before selling additional new crop.*

#### **U.S. Wheat:**

- On Friday, National Oceanic and Atmospheric Administration (NOAA) issued a warning about the potential for a Midwest expanding drought, leading to more buying. Positive economic news and thoughts that debt ceiling discussions are moving in the right direction also supported outside markets.
- In their weekly Export Sales Report, USDA showed old crop net cancellations of 45k mt for the week. This was business that can't be executed on time and was rolled to the next year.
- Total 2022/2023 commitments were 18.8 million mt (692.3 million bu) with two weeks left in the season. Of that, 635.3 million bu had been shipped through May 18.  
By class:
  - old crop HRW shipments reached 174.8 million bu (80 per cent of the 220 expected),
  - SRW shipments were 96.83 million bu (88 per cent of the 110 million bu expected),
  - HRS sat at 190.5 million bu (87 per cent of USDA's 220 million bu expected), and
  - white wheat exports were marked at 158.8 million bu (80 per cent of the 200 million bu forecast).
- New crop U.S. wheat sales were 245k mt, near the low end of estimates.
- U.S. grains remain expensive compared to other origins.
- *There were reports of additional German/Polish wheat sales to the U.S.*
- We expect funds to add to their shorts.
- U.S. HRS for June 2023 was valued at \$340.10/mt FOB PNW (*down \$1.40/mt from last week*), FOB Gulf HRW 11/12.5 pro is valued at \$357.50/mt (*down \$2.90/mt from last week*).

#### **Australian Wheat:**

- Australian farmers continue to concentrate on fieldwork, but the outlook is for increasingly dry conditions.
- FOB values in Australia: June 2023 AWP, WA is valued at \$280.00/mt (*down \$10/mt from last week*).

#### **Argentine Wheat:**

- Argentina got good rains and recorded a positive anomaly for May of 10-30 mm in BA and Cordoba (representing about 62 per cent of the crop).
- Farmer activity remained close to zero with new crop sales still just 300k mt compared to 4 mln mt last year.
- June Argentine wheat is quoted at U.S. \$330/mt FOB (unchanged from last week).

#### **China:**

- According to an article in Reuters this Monday, heavy rains last week flooded wheat fields in China's central Henan province, just days ahead of the harvest. This pushed up prices and raised concerns about the quality of this year's crop in the world's top consumer of the grain. The rain is said to be causing some of the wheat to sprout or become affected by blight. - We will have to watch over the next days if this is a significant problem or not.

#### **EU Wheat:**

- MATIF closed higher last week following:
  - reports of big weekly EU shipments,
  - additional German/ Polish wheat sales to the U.S., and
  - an increasingly dry outlook for the northern EU major crop regions.
- Copa-Cogeca estimates 2023 grain production at 277 million mt, up 4.6 per cent yr/yr. The soft wheat outlook is expected to increase by 2.8 per cent.
- The EU extended its zero tariff on Ukraine imports for another year.
- We expect EU/ Russian wheat stocks to weigh on early season prices. June-July will be key months.

- EU FOB prices: June 2023 French 11.5 pro wheat closed at \$246.80/mt (*down \$0.70/mt from last week*); June 2023 German 12.5 pro wheat closed at \$246.80 (*down \$0.70/mt from last week*); June 2023 Baltic 14.0 pro wheat closed at \$260.20/mt (*down \$0.70/mt from last week*).

#### **Black Sea Wheat:**

- IKAR raised their expected 2023 wheat production by two million mt to 86 million mt. The updated export potential is estimated at 44 million mt.
- The Ukrainian Ag Ministry reported that the season's grain exports were 4.6 per cent behind last year's pace with 44.6 million mt shipped – including 15.3 million mt of wheat, an 18 per cent decrease yr/yr.
- Russian Prime Minister Mikhail Mishustin signed a resolution to change the calculation of the export customs duty rates for grain crops in terms of raising non-taxable price thresholds:
  - Wheat from 15,000 rubles to 17,000 rubles
  - Corn and barley - from 13,875 rubles to 15,875 rubles.
- The new export tax calculation begins June 1, 2023. It will result in a drop in the tax from June 7<sup>th</sup> forward.
- We note that the percentage of Russian spring wheat acreage in hot dry condition is expanding.
- Estimated FOB prices for June 12.5 protein Russian wheat: U.S. \$245/mt (up \$5/mt from last week).

#### ➤ **Significant purchases/ trades:**

- There were no significant cash wheat trades reported last week.
- Taiwan bought 56k mt of U.S. wheat for July shipment.
- USDA showed old crop net cancellations of 45k mt for the week. New crop U.S. wheat sales were 245k mt, near the low end of estimates.

#### ➤ **Wheat Market Outlook:**

##### **Significant events over the past week:**

- **Wheat futures** settled the last trade day before Memorial Day with gains across all three classes. Commodity Futures Trading Commission reported managed money traders at a 6,402-contract net short in Minneapolis wheat. That was a 1,600 contract stronger net short through the week. MATIF also closed higher on big EU weekly shipments and additional German/ Polish sales to the U.S.
- However, there have been **few U.S. sales**; the trades are either South American origin or Russian/Black Sea origin, and U.S. grains are expensive compared to other origins.
- In fact, there were reports of additional **German/Polish wheat sales to the U.S.**
- Over the weekend, Russia came through with the expected reduction in **Russian wheat taxes**, which should lower cash wheat prices. It will be interesting to see if the futures follow cash prices.
- In **Europe**, Copa-Cogeca estimates 2023 grain production at 277 million mt, up 4.6 per cent yr/yr. The soft wheat outlook is expected to increase by 2.8 per cent.
- The **EU** extended its zero tariff on Ukraine imports for another year.
- According to an article in Reuters, heavy rains last week flooded wheat fields in **China's** central Henan province, just days ahead of the harvest. - We will have to watch over the next days if this is a significant problem or not.
- **U.S. spring wheat planted** came in at 64 per cent last week, *up 14 points from the previous week* but still well below the five-year average of 94 per cent. Spring wheat seeding in Canada is mostly done by now but was delayed by about a week from average seeding dates and moisture ratings have been falling.
- **AAFC** increased seeded wheat acres (excl. durum) by a big 734k acres from their April number to 20.9 million acres. For durum, AAFC increased seeded acres by 388k acres from their April number to 6.06 million acres.

**Outlook:**

Mercantile has not heard of significant cash wheat trades this week and they think world buyers are just about covered on old crop and are waiting before buying new crop at hopefully stronger local currencies. The change in the Russian export tax keeps the Europeans a little more bearish, and Mercantile believes U.S. grains remain expensive compared to other origins. Mercantile expects funds to add to their shorts. - *It being a short week, Mercantile would leave markets alone.*

**iii) Primary Elevator Price Tables and Grade Spreads**

**Table 1: Canadian Primary Elevator Bids, in Canadian Dollars per Bu and per MILLION MT**

Date: <b>29-05-2023</b>					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Sept. '23 (bu.)	Sept.'23 (mt)
1 CWRS 13.5	\$10.38	\$381.40	1 CWRS 13.5	\$9.68	\$355.68
1 CWAD 13.0	\$11.02	\$404.92	1 CWAD 13.0	\$10.07	\$370.01
1 CPSR 11.5	\$9.86	\$362.30	1 CPSR 11.5	\$9.00	\$330.70
SW Sask			SW Sask		
1 CWRS 13.5	\$10.19	\$374.42	1 CWRS 13.5	\$9.61	\$353.11
1 CWAD 13.0	\$10.92	\$401.24	1 CWAD 13.0	\$10.09	\$370.75
1 CPSR 11.5	\$9.68	\$355.68	1 CPSR 11.5	\$8.92	\$327.76
NE Sask			NE Sask		
1 CWRS 13.5	\$10.14	\$372.58	1 CWRS 13.5	\$9.44	\$346.86
1 CWAD 13.0	\$10.89	\$400.14	1 CWAD 13.0	\$9.98	\$366.71
1 CPSR 11.5	n/a		1 CPSR 11.5	n/a	
SE Sask			SE Sask		
1 CWRS 13.5	\$10.03	\$368.54	1 CWRS 13.5	\$9.41	\$345.76
1 CWAD 13.0	\$10.90	\$400.51	1 CWAD 13.0	\$10.03	\$368.54
1 CPSR 11.5	\$9.49	\$348.70	1 CPSR 11.5	\$8.75	\$321.51

Data source: PDQ May 29, 2023

**Table 2: Grade Spreads, in Canadian Dollars per Bu and per MILLION MT**

Avg. Grade Spread/ Pro Discounts	Cdn\$/bu.	Cdn./mt
1 CWRS 14.0	0.05	1.89
1 CWRS 13.5	Base Grade	Base Grade
2 CWRS 13.5	(0.10)	-3.67
1 CWRS 12.5	(0.30)	-11.02
1 CWAD 13.0	Base Grade	Base Grade
1 CWAD 13.5	0.00	0.00
2 CWAD 13.0	(0.10)	-3.67
2 CWAD 12.5	(0.15)	-5.51

Data source: PDQ May 29, 2023

#### **iv) FOB Wheat Prices and Export Basis Calculation**

##### **Background and Rationale:**

Reporting FOB prices at port position and primary elevator prices allows the reader to gain an understanding of both local and international wheat prices and to understand the relationship between the two, as measured by the export basis. Export basis can be defined as FOB port position prices minus the primary elevator prices at any given prairie delivery location and is therefore reflective of transportation costs plus any premiums being captured by terminal grain elevator companies or the railway companies, at any given time.

In general, a widening basis is indicative of decreasing system performance in terms of either reduced port capacity or rail service, or both. A narrowing basis is indicative of increased available port capacity and/or better ability of the railways to provide ample service to grain shippers. In this regard, tracking these prices over time has value both in terms of producers being able to time the selling of their grain but also in terms of evaluating and setting policy related to various transportation and capacity issues.

Gray (2015) has calculated a normal basis to be in the range of C\$72/million mt. During the 2013/14 crop year the export basis for wheat widened to approximately C\$250/million mt, which indicated an inability of the grain handling and transportation system to adequately handle the record crop produced that year. This occurrence has highlighted the need to improve the level of rail service and take measures to expand port capacity where possible. It has also underscored the need for better price transparency and market information within the grain sector.

##### **Assumptions, Definitions, and Methodology**

The following background information should assist in understanding and interpreting international market signals and to relate them to the 'local' Saskatchewan wheat market:

- The price information generated for the weekly report is designed to show farmers at what price levels several wheat classes are trading at local primary elevators (Table 1) and in nearby international markets (Table 3). To express the Export Basis<sup>1</sup> (see *Export Basis* in Table 3) defined as Canadian FOB Prices minus primary elevator bids, the FOB prices are translated into Canadian dollars from US dollars and compared to current actual primary elevator Street prices at Rosetown, Saskatchewan (see *Street Prices* in Table 3). Rosetown is used as a proxy for all primary elevators in the basis calculation. The actual handling and transportation costs from the West Coast to delivered elevator (Rosetown area) range from ~C\$58.00-C\$74.72/million mt, depending on number of cars moved and elevator used.

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<sup>1</sup> Gray, R.S. (2015). The Economic Impacts of Elevated Export Basis Levels on Western Canadian Grain Producers 2012/13, 2013/14 and 2014/15.

“The difference between FOB Vancouver prices and the Saskatchewan elevator cash bids to producers is referred to as export basis: Basis can refer to the difference between any two prices. As the largest volume port, Vancouver FOB, minus the elevator bid prices representative measure of the “export” basis for grains in Western Canada.”

- Approximate relationship between U.S. wheat classes and Canadian wheat classes:
  - DNS 14 per cent in the Pacific Northwest (PNW) ≈ 1 CWRS 13.5 per cent in Vancouver
  - HRS in the Pacific Northwest (PNW) ≈ 2 CWRS 13.0 per cent in Vancouver
  - HRW in the Pacific Northwest (PNW) ≈ 3 CWRS in Vancouver
  - SW (lowest price wheat) ≈ CPS red (mostly fed domestically)
  - HAD (Lakes) ≈ CWAD (Thunder Bay/ Lawrence)
    - Abbreviations: DNS (Dark Northern Spring Wheat); HRS (Hard Red Spring Wheat); HRW (Hard Red Winter Wheat); SW (Soft Wheat); HAD (Hard Amber Durum Wheat); CWRS (Canadian Western Red Spring Wheat); CPS (Canada Prairie Spring Wheat); CWAD (Canadian Western Amber Durum Wheat)
  
- Hard wheat price calculations:  
 Exporters in Western Canada generally derive their primary elevator wheat prices from HRS values at the West Coast (Pacific Northwest - PNW). Similarly, HRW values are used for lower grade (3) CWRS.
  - West Coast HRS and HRW values essentially dominate the international hard wheat trade and determine its basic value.
  - If premiums are paid for 1 CWRS 13.5, elevator companies are often able to retain the premium.
  
- Durum wheat price calculations:  
 The primary export route for Canadian durum wheat is still through Thunder Bay, not the West Coast of Canada.
  - Nevertheless, the Pacific Coast has increased in importance for durum over time with 38 per cent of total export volume crop year to date.
  - Italy is the single biggest buyer of Canadian durum wheat with 27 per cent of total Canadian durum exports YTD (East Coast shipments).
  
- Optional origin grain sales:  
 Most major international grain companies sell 'optional origin' wheat to their customers and often cover their sales 'at best' closer to the shipment position. The Canadian grain system is not conducive to servicing optional origin sales because the volume of wheat kept in storage in port today is much smaller than prior to deregulation of the Canadian wheat market.

**Table 3: Relevant FOB Prices and calculated Basis, U.S. & Canadian Dollars per MT**

Relevant FOB Prices and Export Basis			29-05-2023	
Type of Wheat	FOB Prices CDA <sup>1</sup> (calculated)		Street Prices	Export Basis <sup>2</sup>
	West Coast (Cdn./mt\$)	Great Lakes (Cdn.\$/mt)	Rosetown (Cdn.\$/mt)	Basis: West Coast-Centr. SK (Cdn\$/mt)
DNS 14.0	\$455.68	\$509.58		
HRS	\$448.69			
HRW 11.5	\$448.19			
SWW 12.0	\$361.35			
1 CWRS 13.5 <sup>3</sup>	\$455.68		\$372.58	\$83.10
2 CWRS 13.0 <sup>3</sup>	\$448.69		\$361.19	\$87.50
3 CWRS <sup>3</sup>	\$448.19		\$352.01	\$96.19
CPS <sup>3</sup>	\$354.36		\$347.97	\$6.40
1 CWAD <sup>4</sup>		\$502.60	\$407.86	\$94.74
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$245.00	June '23		
French 11.5 (Rouen)	\$246.80	June '23		
APW 10.5 (W Coast)	\$280.00	June '23		
Argentine 12.0	\$330.00	June '23		

<sup>1</sup> FOB Prices CDA = FOB US\$ converted into Canadian Currency

<sup>2</sup> Export Basis = FOB Prices CDA minus Cdn. Street Price

<sup>3</sup> DNS 14% ≈ 1 CRWS 13.5%; HRS ≈ 2 CWRS 13.0%; HRW ≈ 3CWRS; SWW ≈ CPS

<sup>4</sup> Values derived to Lakehead FOB